SUPREME COURT, U. S.

FILED

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IN THE

# Supreme Court of the United States

OCTOBER TERM, 1968

No. 1244

RADIO CORPORATION OF AMERICA,

*Petitioner,*

*against*

SCM CORPORATION,

*Respondent.*

## BRIEF FOR RESPONDENT SCM IN OPPOSITION TO RCA'S PETITION FOR WRIT OF CERTIORARI AND RESPONDENT SCM'S APPENDIX

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May 24, 1969

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## BRIEF FOR RESPONDENT SCM IN OPPOSITION TO RCA'S PETITION FOR A WRIT OF CERTIORARI

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This is a patent action commenced on March 5, 1965 by respondent SCM against petitioner RCA alleging the invalidity and unenforceability of three RCA patents allegedly infringed by SCM.

Following pre-trial discovery, SCM amended its complaint on May 8, 1967 to allege actual fraud by RCA upon the Patent Office and SCM. RCA then pleaded its second counterclaim charging SCM with attempted and actual monopolization since 1959 of a segment of the office photocopy business, in which RCA does not engage. RCA simultaneously pleaded an affirmative defense that such alleged antitrust violations constituted "unclean hands" which barred SCM from seeking damages based on RCA's alleged fraud on the Patent Office and SCM.

RCA seeks a writ of certiorari to the Court of Appeals for the Second Circuit from its affirmance of the District Court's final judgment pursuant to Rule 54(b) dismissing

RCA's second counterclaim. No appeal lay as a matter of right—and none was sought—from the District Court's interlocutory order dismissing RCA's related second affirmative defense. The opinions below in the Court of Appeals and the District Court are officially reported, respectively, at 407 F. 2d 166 and 276 F. Supp. 373, and are printed respectively, as Appendices "A" and "B" to the Petition.

Decision of the patent action, including the fraud issues, is now *sub judice* before the District Court (McLean, D. J.) after a twenty-three day trial last fall. RCA has conceded that if the validity and enforceability of its patents are not sustained, then its second counterclaim has no basis whatsoever (RA 37*). Thus RCA seeks review of the decision below dismissing its second counterclaim, which will become moot and academic in the event of judgment adverse to its patents.

## Question Presented

Whether the courts below correctly concluded that petitioner RCA failed to show in its second counterclaim that it was injured or threatened with injury "by reason of" alleged antitrust violations of respondent SCM as required by Sections 4 and 16 of the Clayton Act.

Contrary to RCA's assertions (Pet. 2), the question presented of causal relation between violation and injury is not novel; involves no "judicially created restriction upon the statutory private antitrust remedies," no use of any such restriction "to penalize" RCA and no issue upon which the Courts of Appeals are "in disagreement." **

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* Reference to Respondent's Appendix is "RA" and to Petitioner's Appendix "PA". Reference to the Petition is "Pet."

** The only disagreement (Pet. 14) between the Seventh and other Circuits and irrelevant here, involves a particularized motion picture conspiracy fact pattern (see p. 12, *infra*).

## Statutes Involved

The relevant texts of Sections 4 and 16 of the Clayton Act appear at page 3 of the Petition.

The following are provisions of pertinent sections of Title 35 U. S. C., the Patent Act:

> §154: "Every patent shall contain . . . a grant to the patentee, his heirs or assigns, for the term of seventeen years . . . of the right to exclude others from making, using, or selling the invention throughout the United States. . . ." July 19, 1952, c. 950,§1, 66 Stat. 804; amended [though not with respect to any of the foregoing] July 24, 1965, Pub. L. 89-83, §5, 79 Stat. 261.
>
> §281: "A patentee shall have remedy by civil action for infringement of his patent." July 19, 1952, c. 950, §1, 66 Stat. 812.
>
> §283: "The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable." July 19, 1952, c. 950, §1, 66 Stat. 812.
>
> §284: "Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.
>
> ". . . the court may increase the damages up to three times the amount found or assessed. . . ." July 19, 1952, c. 950, §1, 66 Stat. 813.

## Statement of the Case

RCA owns three patents, '883, '539 and '540,* relating to office photocopy machines and photocopy paper using an electrostatic method, denominated collectively by RCA under its trademark "Electrofax" (RA 2, 19, 21; Pet. 4).

RCA has never engaged in, or invested or taken the risks inherent in the business of manufacturing or marketing photocopy machines or paper. Solely as a licensor of its three patents, it has realized about 6 million dollars of patent royalty income on total sales of about 350 million dollars of office photocopy machines and paper made by its many licensees.**

SCM entered the office copying business in 1959 (RA 24). Starting in 1961, RCA sought to induce SCM to take licenses under its patents and soon-to-be-issued "Electrofax" patents, claiming that SCM would infringe some of them. In March 1963, SCM entered into a license agreement with RCA with respect to some but not all of the claims of the '539 patent (RA 4-5, 29-30). The agreement provided for termination by SCM and reserved SCM's right to contest the validity of the patent in any proceeding (RA 4-5).

SCM terminated the '539 license agreement by notice on March 5, 1965 (RA 31). On the same day, SCM commenced this patent action, claiming that the three RCA patents were invalid and unenforceable. RCA promptly counterclaimed for infringement damages and an injunc-

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* U. S. Patents Nos., respectively, 2,922,883 ("883") issued January 26, 1960; and 3,052,539 ("539") and 3,052,540 ("540"), both issued September 4, 1962.

** RCA Trial Brief p. 52, Oct. 2, 1968. RCA had 63 licensees by 1967 (RA 22). As of December 15, 1965 RCA had 40 licensees, of whom 26 were paying royalties to it. In 1962, RCA had 16 licensees, of whom 4 were paying royalties to it (RA 38-39).

tion against infringement of the '539, '540 and '883 patents.

Alone among the many RCA licensees, SCM undertook the expense and risk of a patent litigation with RCA rather than continue to pay patent tribute. As the action stood in 1965, success by SCM would free it and, effectually, the entire photocopy industry and the public of further tribute on invalid patents. Failure would mean infringement damages. And, unless SCM obtained a new license, an injunction if issued, would eliminate SCM from the business of manufacturing and marketing electrostatic photocopying machines and paper under the "Electrofax" patents, the very business of which RCA was later to allege in its second counterclaim SCM was the monopolist.

In response to SCM's second amended complaint served in 1967 with its additional claims of fraud (RA 7, 9-13), RCA set up its second counterclaim and second affirmative defense (RA 19, 20-34).

RCA's second counterclaim analytically is divided into two parts. The first alleges that SCM committed various practices in attempting to monopolize and in monopolizing that part of the business of manufacturing and marketing electrostatic photocopy machines and paper which is allegedly based upon the "Electrofax" patents.* In short, it is claimed that RCA's patent royalty income (the "full benefits of its Electrofax patents") has been and will be reduced because of the restraining effect on SCM's many competitors and potential competitors, all of whom are or would be royalty-paying licensees to RCA (Pet. 8; par. 72 of RCA's second counterclaim, RA 33-34). Though it

* RCA's definition of the lines of commerce, though assumed to be true here and by the court below, omits the photocopy business carried on by Xerox, which dominates the photocopy business with a market share between 60% and 70%. Xerox does not license its own patents covering the electrostatic processes used by it exclusively. (SCM Trial Exhibit 271; Fortune, Nov. 1966, pp. 140, 143).

is alleged that illegal monopolization activities by SCM commenced as early as 1959 (RA 24), RCA never asserted any such claim against SCM until 1967 when its key patent, the '539, was placed in further jeopardy because of serious allegations of fraud.

Making no claim for damages due to "lost royalties" from licensees (Pet. 8), and in the guise of a self-appointed private policeman bearing the badge of "sole lawful monopolist" of a photocopy business in which it does not engage (Pet. 46; RA 22), RCA seeks "nation-wide injunctive relief" against SCM's alleged illegal acts (Pet. 17; RA 35-36). Along with the myriad suppliers who furnish the nuts and bolts and sundry services to the many companies which engage in the manufacture and marketing of photocopy machines and paper, RCA as a non-exclusive patent licensor is at best simply a supplier to a royalty-paying licensee of immunity from patent infringement suit.*

The second part of RCA's second counterclaim is that SCM terminated the '539 license agreement with RCA and instituted this patent action as part of its monopolization scheme (pars. 67, 68, RA 31). In this respect, RCA allegedly was "immediately injured" by being "deprived of royalties lawfully due and owing from plaintiff under United States Letters Patent No. 3,052,539", that is, infringement damages of at least a reasonable royalty (35 U. S. C. §284) because of SCM's alleged infringing use of that patent after termination of the license on some of the claims of that same patent (pars. 70, 71, RA 32-33). RCA was also allegedly injured by being put to the expense of defending against SCM's suit challenging the three RCA patents (par. 70, RA 32). While the injury asserted from SCM's alleged infringing use is the same in

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* While it remains in effect, a non-exclusive patent license amounts "to no more than 'a mere waiver of the right to sue'. . . ." *General Talking Pictures Corp.* v. *Western Electric Co.*, 304 U. S. 175, 181.

both of RCA's counterclaims, the antitrust relief of three times such royalties and expense sought under the second counterclaim is separate from and in addition to the patent infringement relief sought under the first counterclaim, now *sub judice* before the District Court. Patent infringement damages include no less than a reasonable royalty for infringing use and up to three times the amount found or assessed (35 U. S. C. §284) and attorneys' fees in exceptional cases (35 U. S. C. §285).

RCA's second counterclaim, and the related second affirmative defense of alleged "unclean hands" barring SCM's causes of action for damages due to fraud, was an attempt by RCA to shield its patents from further attack. It posed a clear threat to SCM. Unless SCM dropped its challenge to the RCA patents, SCM would have to face RCA in burdensome and protracted antitrust litigation countrywide in scope * on issues unrelated to the validity and enforceability of the patents, as the price of litigating the patent questions.

The District Court (McLean, D. J.) granted SCM's motion to dismiss RCA's second counterclaim and its second affirmative defense, recognizing RCA's effort as a "skillful attempt to turn a patent suit into an antitrust action, an attempt which does not come off" (PA 11b). It held that RCA was not injured "'by reason of'" SCM's violation of the antitrust laws, within the meaning of Sections 4 and 16 of the Clayton Act (PA 7b). The Court found that RCA's alleged injury of reduced patent royalty income from its licensees on grounds of alleged adverse effect on the business carried on by such licensees, failed to meet the statutory causation requirement between injury and violation because incidental and not direct, cit-

* See Pet. 17 where RCA claims that it has a "very real interest in presenting evidence of SCM's activities throughout the country."

ing *Productive Inventions, Inc.* v. *Trico Products Corp.*, 224 F. 2d 678 (2d Cir. 1955), *cert. denied*, 350 U. S. 936, which reached the same result on similar facts (PA 7b).

The District Court held that RCA's alleged injury of loss of royalties from SCM was suffered because of SCM's alleged infringing use of the '539 patent following its termination of the '539 license agreement and because SCM challenged the validity and enforceability of that RCA patent (PA 8b-10b, 11b). Thus the Court found "no real causal relation" between the alleged injury and the alleged violation. SCM's alleged monopolistic acts were irrelevant to the causation of any injury based on violation of valid patent rights (PA 9b, 11b). Whether assumed to be monopolistic or not, SCM had "a right to test out the validity of [RCA's] patents" (PA 10b). If its patents are held invalid, RCA is entitled to nothing from SCM or anyone else (9b-10b). If its patents are valid, which "remains to be seen", RCA can obtain at least a reasonable royalty for SCM's past infringing use and might obtain injunctive relief. Thus RCA was not penalized by SCM's termination of the '539 license agreement and commencement of this patent action for refusing SCM's alleged request for a royalty reduction (PA 8b-9b, 11b).

The Court of Appeals affirmed. The majority opinion (Moore, C. J.; Hays, C. J. concurring) (PA 2a-12a), carefully reviewed RCA's second counterclaim, the well-considered opinion of the District Court, and various authorities including *Productive Inventions*. It concluded that RCA was not foreclosed from seeking treble damages or injunctive relief "if it can plead and establish by proof, the causation required by the statute"; that the District Court correctly held that RCA's second counterclaim failed to do that, and "that is all we affirm" (PA 12a).

In dissent, Timbers, D. J. (PA 12a-15a) was of the opinion that RCA's claim for injunctive relief was distinguishable from *Productive Inventions* and two supplier decisions. Judge Timbers considered RCA's claim for loss of royalties from SCM and litigation expenses to be appropriate for antitrust relief despite the many problems involved, including the desirability of encouraging challenges to claimed patent monopoly rights (PA 15a). He did not make reference, however, to the fact that RCA's loss, if any, was due to SCM's alleged infringing use of the '539 patent after SCM simultaneously terminated the license and began this patent action.

Judge Timbers was also of the opinion, as RCA had argued in its brief, that SCM's non-royalty paying position after termination of the license agreement on some of the '539 claims, enhanced its assumed monopolistic objectives vis-a-vis its royalty-paying competitors (PA 15a). But any of those competitors were free to follow the same course followed by SCM and all have been free to await the outcome of this patent action and thereafter secure the benefits of any determination adverse to RCA's patents, without undertaking the risks and expense of litigating against RCA.* Certainly an alleged illegal monopolist would rather pay a 2% patent tribute (RA 29) to RCA, a non-competitor, than undertake the risk, if unsuccessful, of permanent injunctive relief against use of patented inventions essential to the carrying on of its monopolistic business; or, if successful, free not only itself but all competitors from further patent tribute.

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* Without awaiting the District Court's decision, soon after the completion of the SCM-RCA patent trial, Nashua Corporation, a major manufacturer of photocopy paper, terminated royalty payments to RCA (having already paid about one-half million dollars) and commenced its own patent action. Docket No. 2948, U. S. District Court, N. H. (December 31, 1968). Nashua expressly alleged that the SCM-RCA trial had adduced evidence establishing the invalidity of the '540 patent. The '539 patent was alleged to be unenforceable. Nashua was neither licensed under, nor alleged by RCA to have infringed the '883 patent.

## Argument

Certiorari should not be granted in this case for several reasons.

1. This type of suit by a patent owner-licensor for alleged diminution of royalty income from its licensees on grounds of adverse antitrust effects on the business of those licensees, in which the licensor did not engage, is not of recurrent significance. The only other action with that fact pattern was *Productive Inventions* where the same result was reached by the same Court of Appeals.

2. Only a "person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws" or who is "threatened" with "loss or damage by a violation of the antitrust laws" may maintain a private antitrust action (15 U. S. C. §§15, 26). The decision below correctly applied the statutory requirement of causation by analyzing the particular facts presented. In doing that, it did what every court is required to do when applying a statute; and it did not impose any "judicially created restriction upon the private antitrust remedies" (Pet. 2). The decision below did not involve any principle relating to the analysis of causation as to which there is any disagreement among the Courts of Appeals or which disregarded any of this Court's teachings (Pet. 2, 13, 22).

Decisions dealing with the statutory causation question have analyzed the various fact patterns involved. Whether finding causation present or lacking, the courts have referred to appropriate terminology, whether "direct injury" contrasted against "indirect" or "incidental dam-

age" as here and in *Productive Inventions,* or some other expression of the same notion of determining "proximate cause".*

Thus, for example, a number of courts have found the statutory causation requirement was not met in situations where the plaintiff was a supplier of goods or services, often one of many suppliers, to a party directly affected by the defendant's alleged antitrust violations.** In *Volasco,* as in *Snow Crest* (both cited in the footnote below), the alleged injury to the supplier of raw materials was "too remote and too far removed from the direct injury" (308 F. 2d at 395). RCA, like the supplier-plaintiff in *Volasco,* has to "abide by the consequences" of choosing to refrain from engaging in the trade and commerce allegedly restrained (308 F. 2d at 394). *Volasco* was cited with approval by this Court in *Zenith Radio Corp.* v. *Hazeltine Research, Inc.,* — U. S. —, 37 U. S. L. W. 4424, 4431 n. 21 (May 19, 1969), in dealing with a different question under Section 4 of the Clayton Act.

An additional policy base for the results reached in the cases involving numerous suppliers to the directly affected party, is, as Judge Wyzanski observed in the *Snow Crest* case, that any other result would extend "liabilities of in-

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* See *United States* v. *Borden Co.,* 347 U. S. 514, 518 (harm "of a sort personal" to the private plaintiff). Other cases cited in the next footnote, and the *Hoopes* and *Congress Building* cases quoted in the text at page 12, *infra,* variously refer to the following terminology: proximate cause, victim in the target area, direct injury as against indirect, incidental, secondary, derivative, speculative, collateral, consequential or remote injury.

** See *Volasco Products Co.* v. *Fry Roofing Co.,* 308 F. 2d 383, 393-395 (6th Cir. 1962), *cert. denied,* 372 U. S. 907; *Nationwide Auto Appraiser Service, Inc.* v. *Association of Casualty & Surety Cos.,* 382 F. 2d 925, 927-929 (10th Cir. 1967); *Centanni* v. *T. Smith & Son, Inc.,* 216 F. Supp. 330, 338 (E. D. La. 1963), *aff'd per curiam,* 323 F. 2d 363 (5th Cir. 1963); *Snow Crest Beverages, Inc.* v. *Recipe Foods, Inc.,* 147 F. Supp. 907, 909 (D. Mass. 1956). See *United Mine Workers of America* v. *Osborne Mining Co.,* 279 F. 2d 716, 728-729 (6th Cir. 1960), *cert. denied,* 364 U. S. 881; *Marshall* v. *Proctor & Gamble Mfg. Co.,* 170 F. Supp. 828, 836 (D. Md. 1959)

definable scope for conduct already subject to drastic private remedies'' (147 F. Supp. at 909). That policy consideration has particular applicability here since if its patents are valid, RCA is at best only one of the great number of suppliers of goods and services to its many licensees engaged in the manufacture and marketing of photocopy machines and paper.

Where courts have found that the statutory causation requirement was met, they have analyzed the particular fact patterns to determine whether the alleged injury was direct and not incidental, or whether proximately caused by the alleged violation. In *Hoopes* v. *Union Oil Co. of California,* 374 F. 2d 480, 485 (9th Cir. 1967) (Pet. 14), involving a fact pattern entirely dissimilar from *Productive Inventions,* which was cited with approval, the court held that the plaintiff's injury was ''direct''. Similarly, in *Congress Building Corp.* v. *Loew's, Inc.,* 246 F. 2d 587, 593 (7th Cir. 1957) (Pet. 14), the court held that the ''alleged acts of the defendants are clearly the direct and proximate cause of the injury.'' *Productive Inventions* and other decisions were distinguished as involving ''factually dissimilar situations.'' (246 F. 2d at 590). To the narrow extent there is any disagreement among Circuits, it is with respect to the application of settled principles to a specific movie conspiracy fact pattern present in *Congress Building* and in contrary movie conspiracy decisions of other Circuits.

Thus no significant issue is raised by the decision below. If liberalization of the private antitrust remedies were required, none is warranted through the medium of the patent fact pattern presented in this case.

3. RCA was not ''penalized'' and was not ''unlawfully deprived of royalties due from SCM'' as the result of SCM's commencement of this patent action, its simultaneous termination of the '539 license agreement, and SCM's alleged infringing use thereafter of the claims of that pat-

ent which it had previously licensed. (Pet. 2, 8, 18-21). Those acts simply exposed each of the parties to the risks flowing from a patent action of this type; as did SCM's alleged infringing use of the other claims of the '539 patent and the '540 and '883 patents which SCM did not license and concerning which RCA made a claim of infringement but never claimed that such infringing use constituted any antitrust injury.

The property rights conferred by Section 154 of the Patent Act (35 U. S. C. §154) are to exclude others from "making, using and selling" the patented invention, and are coupled with the statutorily conferred infringement remedies of damages and injunction provided in Sections 281 and 283-285 of the Patent Act (35 U. S. C. §§281, 283-285).* If the validity and enforceability of RCA's patents are upheld, the property rights arising therefrom will be vindicated as to RCA's loss of royalties from SCM due to its alleged infringing use. If SCM's claims of invalidity and unenforceability of the patents are upheld, RCA has no legally protectable property rights under the patent laws or, as RCA has conceded, under the antitrust laws (RA 37).

SCM has not, as RCA erroneously contends, secured any "new type of immunity for refusals to deal pursuant to an attempted monopolization" (Pet. 19). The consequences of SCM's refusal to acknowledge the validity of RCA's three patents will be dealt with in the patent action presently *sub judice*. Such refusal is entirely different from the illegal refusals to deal in the gasoline distribution cases cited by RCA (Pet. 19).

As Judge McLean held (PA 10b), even an assumed monopolist has a right to defend itself against a patentee's charge of infringement and to test the validity of the

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* See Judge Patterson's opinion in *In Re Paramount Publix Corp.*, 8 F. Supp. 644, 646 (S. D. N. Y. 1934) (the patent "remedies, being statutory and coupled with a statute creating the [patent] right, are to be deemed exclusive. . . ."); see also *Glenn Coal Co.* v. *Dickinson Fuel Co.*, 72 F. 2d 885, 888 (4th Cir. 1934).

patentee's asserted monopoly.* That principle is in accord with the strong public policy of "keeping open the way for interested persons to challenge the validity of patents" and patent monopolies which may be shown to be invalid. *Katzinger Co.* v. *Chicago Mfg. Co.*, 329 U. S. 394, 400-401.** If it were not the law RCA, which claims to be the "sole lawful monopolist" of the photocopy business involved, would achieve validity of a potentially invalid patent. SCM, the alleged illegal monopolist, would be required to recognize the validity of RCA's patents and the alleged legality of RCA's monopoly position, without any right of protest, and SCM would be an infringer merely on the assertion of RCA, the patentee.

4. There is no need here for extending to RCA the industry-wide enforcement powers which it seeks (Pet. 17), and there are compelling policy reasons for not extending those powers to RCA and other patent owners. Contrary to its assertion (Pet. 6), RCA does not and could never have legally possessed the power based on patent ownership "to control the extent and nature of competition in the market by means of its licensing policies".

RCA erroneously asserts that the practical effect of denying it standing to sue will be to "leave SCM's activities largely unaffected by the antitrust laws", and that RCA is the "ideal party to seek nationwide injunctive relief" against SCM's alleged conduct (Pet. 17). But RCA elides its non-participation in the manufacturing and marketing business allegedly affected. And it ignores the

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* See *Bulldog Electric Prods. Co.* v. *Westinghouse Electric Corp.*, 162 F. 2d 994, 997 (2d Cir. 1947); *Bulldog Electric Prods. Co.* v. *Cole Electric Prods. Co.*, 148 F. 2d 792, 795 (2d Cir. 1945).

** *Precision Instrument Mfg. Co.* v. *Automotive Maintenance Machinery Co.*, 324 U. S. 806, 816; *Cuno Engineering Corp.* v. *Automatic Devices Corp.*, 314 U. S. 84, 92; *John Deere Co.* v. *Graham*, 333 F. 2d 529, 535 (8th Cir. 1964), *aff'd* 383 U. S. 1; *Ditto, Inc.* v. *Minnesota Mining & Mfg. Co.*, 336 F. 2d 67, 69 (8th Cir. 1964).

Attorney General, the Federal Trade Commission (see *United States* v. *Borden Co.*, 347 U. S. 514, 518) and the many RCA licensees and others engaged in that business who, alone or together under modern procedure, are well capable of protecting any public or private interest genuinely affected adversely by SCM's alleged conduct.

RCA (the owner of more than 5,000 subsisting patents as shown by Patent Office public records) seeks to add for itself and other patent owners who have been content to enjoy patent royalty income without engaging in the business carried on by their licensees, another powerful weapon to protect their patents from invalidity suits by non-licensees or balky licensees and to coerce the exaction of royalty-paying licenses. Such newly-sought power to threaten or bring antitrust charges of the type alleged here, directly contravenes the strong public policy encouraging litigated challenges to the validity and enforceability of patents, which, when successful, liberate competitors and the public from patent monopoly and "the heavy hand of tribute" based on invalid or unenforceable patents. *Cuno Engineering Corp.* v. *Automatic Devices Corp.*, 314 U. S. 84, 92; and the cases cited in the second footnote at page 14, *supra*.

## CONCLUSION

**The petition for a writ of certiorari should be denied.**

Respectfully submitted,

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May 24, 1969

# RESPONDENT'S APPENDIX

## Second Amended Complaint

IN THE

UNITED STATES DISTRICT COURT

FOR THE SOUTHERN DISTRICT OF NEW YORK

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SCM CORPORATION, a New York corporation,

Plaintiff,

*v.*

RADIO CORPORATION OF AMERICA, a Delaware corporation,

Defendant.

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CIVIL ACTION NO. 65 CIV. 686

ACTION FOR DECLARATORY JUDGMENT OF INVALIDITY, NON-INFRINGEMENT AND NON-ENFORCEABILITY OF U. S. PATENTS NOS. 2,922,883, 3,052,539 AND 3,052,540; ACTION FOR RESTITUTION; AND ACTION UNDER 15 U.S.C. SECTION 15

COMES NOW plaintiff SCM Corporation, and for its complaint alleges

PLAINTIFF'S FIRST CAUSE OF ACTION

I. This is an action for a declaratory judgment that United States Patents Nos. 2,922,883, 3,052,539 and 3,052,540 are invalid and unenforceable and that none of them has

been infringed by plaintiff. It is brought pursuant to the provisions of Title 28, United States Code, §§2201 and 2202.

2. Plaintiff, SCM Corporation, hereinafter referred to as "SCM", is a corporation duly organized and existing under the laws of the State of New York and has its executive offices at 410 Park Avenue, New York, New York.

3. Defendant, Radio Corporation of America, hereinafter referred to as "RCA", is a corporation duly organized and existing under the laws of the State of Delaware, and has its executive offices within the Southern District of New York at 30 Rockefeller Plaza, New York, New York, and is duly qualified and registered to do business in the State of New York and is doing business in this District and elsewhere in the United States.

4. Jurisdiction of this Court is based on Title 28, United States Code, § 1338(a).

5. Venue is laid in this District pursuant to Title 28, United States Code, § 1391(c).

6. On information and belief, RCA is the owner of the following United States letters patent and all rights thereunder, including the right to sue for infringement thereof, namely: United States Patent No. 2,922,883, issued January 26, 1960; United States Patent No. 3,052,539, issued September 4, 1962; and United States Patent No. 3,052,540, issued September 4, 1962.

7. SCM is engaged in the manufacture, use and sale of electrostatic photocopy machines and supplies therefor in-

cluding the use and sale of coated copy paper for use with electrostatic photocopy machines. These machines and copy paper have been and are being extensively marketed by SCM throughout the United States and SCM intends to continue the manufacture, use and sale thereof.

8. RCA has stated to SCM that SCM's manufacture and sale of its electrostatic photocopying machines is an infringement of RCA's rights under Patent No. 2,922,883. and has demanded that SCM pay RCA a royalty to obtain a license under said patent to manufacture, use and sell said machines.

9. RCA has asserted to SCM that, for SCM to be free to sell copy paper for use in SCM's electrostatic photocopy machines, SCM must acquire a license under Patent No. 3,052,540 and under Patent No. 3,052,539 or that in lieu of acquiring such license, SCM must purchase its copy paper for use in said machines from a manufacturer licensed under said Patent No. 3,052,540 and under Patent No. 3,052,539. RCA has further asserted to SCM that for SCM to be free to use and sell such copy paper, even if such copy paper is purchased from a licensed manufacturer, SCM must itself be licensed under Patent No. 3,052,-539.

10. Because of the assertions by RCA as alleged in Paragraph 9, SCM was constrained to purchase its supplies of copy paper mainly from a paper manufacturer which, on information and belief, was and is licensed by RCA under Patent No. 3,052,539 and under Patent No. 3,052,540, and SCM did enter into a contract with said licensed manufacturer for the purchase of copy paper. On information and belief said licensed manufacturer was and is obligated by said license to pay royalties to RCA for copy paper sold by

the manufacturer to SCM, and because of the invalidity of said patents as hereafter alleged, SCM was forced to pay an unjustifiably high price for said copy paper. SCM has notified said licensed manufacturer that said contract for purchase of copy paper is cancelled, effective March 22, 1965, and SCM will not, after that date, be obligated by contract to purchase its supplies of copy paper from any licensed manufacturer. SCM has placed with paper manufacturers other than those licensed by RCA orders for substantial quantities of copy paper which is essentially identical to the copy paper which SCM formerly purchased from said manufacturer licensed by RCA. SCM intends in the future to purchase such copy paper from manufacturers other than those licensed by RCA and SCM will use and resell such copy paper in continuance of its present business and without license from RCA. Further, SCM has, without license from RCA, manufactured test quantities of copy paper which is essentially identical to the copy paper purchased by SCM from said manufacturer licensed by RCA. SCM is planning to establish its own full scale facilities for the manufacture of such copy paper.

11. As a result of RCA's assertion, as alleged in Paragraph 9, that SCM must itself be licensed under said Patent No. 3,052,539, SCM was induced to accept a license from RCA under said Patent, said license having an effective term beginning March 1, 1963 and ending December 31, 1967, and requiring the payment by SCM to RCA of a substantial royalty for each electrostatic photocopy machine sold by SCM. SCM has given notice in writing to RCA of the termination of the aforesaid license agreement pursuant to the provisions of Paragraph 13 thereof and in accordance with the provisions of said agreement the agreement will ter-

minate on April 4, 1965. By said notice, and otherwise, SCM has advised RCA of its belief that all of said Patents Nos. 2,922,883, 3,052,539 and 3,052,540 are invalid and that none of SCM's activities infringe any valid claims thereof. SCM has also informed RCA that, believing said patents are not valid or infringed, it intends to continue the manufacture and sale of electrostatic photocopy machines as well as the sale of coated copy paper for use therewith acquired from manufacturers not licensed by RCA.

12. Said license agreement between RCA and SCM provides for and reserves to SCM the right to contest the validity and/or scope of the licensed patent in any proceeding.

13. Patent No. 2,922,883, and each claim thereof, is invalid in that:

(a) The alleged invention thereof was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for said patent.

(b) The alleged invention thereof was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for the patent in the United States.

(c) The applicant for the patent did not himself invent the subject matter sought to be patented thereby.

(d) The difference between the subject matter sought to be patented in the patent and the prior art are such that the subject matter as a whole would

have been obvious at the time the alleged invention was made to a person having ordinary skill in the art to which said subject matter pertains.

(e) The claims of the patent do not particularly point out and distinctly claim the subject matter of the alleged invention.

14. Patent No. 3,052,539, and each claim thereof, is invalid in that:

(a) The alleged invention thereof was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for said patent.

(b) The alleged invention thereof was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for the patent in the United States.

(c) The applicant for the patent did not himself invent the subject matter sought to be patented thereby.

(d) The differences between the subject matter sought to be patented in the patent and the prior art are such that the subject matter as a whole would have been obvious at the time the alleged invention was made to a person having ordinary skill in the art to which said subject matter pertains.

(e) The claims of the patent in suit do not particularly point out and distinctly claim the subject matter of the alleged invention.

(f) Defendant's U. S. Patent No. 3,052,539 is invalid and unenforceable because, during the prosecution of the application for the patent, defendant induced and procured the grant thereof by willfully, deliberately and fraudulently concealing from the U. S. Patent Office and the U. S. District Court for the District of Columbia, material facts known to defendant and by willfully, deliberately and fraudulently making material representations of fact to the U. S. Patent Office and to said U. S. District Court knowing that said representations of fact were untrue.

15. Patent No. 3,052,540, and each claim thereof, is invalid in that:

(a) The alleged invention thereof was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for said patent.

(b) The alleged invention thereof was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for the patent in the United States.

(c) The applicant for the patent in suit did not himself invent the subject matter sought to be patented thereby.

(d) The differences between the subject matter sought to be patented in the patent and the prior art are such that the subject matter as a whole would have been obvious at the time the alleged invention

was made to a person having ordinary skill in the art to which said subject matter pertains.

(e) The claims of the patent in suit do not particularly point out and distinctly claim the subject matter of the alleged invention.

16. SCM will give notice to RCA in writing at least thirty (30) days before the trial of the country, number, date and name of the patentee of any patent, and the title, date and page numbers of any publication to be relied upon as anticipation of any of the patents in suit or as showing the state of the art, and the name and address of any person who may be relied upon as a prior inventor or as having prior knowledge of or as having previously used or offered for sale the alleged invention of any of the patents in suit, all as required by Title 35, United States Code, §282.

17. No acts of SCM, or acts intended or contemplated by SCM, have infringed, infringe, or will infringe any of the patents in suit or any of the claims thereof.

18. Said patents in suit are unenforceable because defendant, contrary to the true purpose and spirit of the Patent Laws and the public policy of the United States, has misused and is misusing said patents to secure a monopoly beyond the scope thereof.

19. There exists an actual controversy within the jurisdiction of the Court between SCM and RCA with respect to the validity of the patents in suit and their alleged infringement by SCM and as to SCM's right to continue its business in the manufacture, use and sale of electrostatic photocopiers and supplies therefor free from any charge of patent infringement by RCA.

*Second Amended Complaint*

PLAINTIFF'S SECOND CAUSE OF ACTION

For its second cause of action plaintiff alleges as follows:

20. This is an action for restitution of royalties paid under a patent license agreement.

21. Jurisdiction for this cause of action arises under 28 U.S.C. §1332. Venue is laid in this District under the provisions of 28 U.S.C. §1391(c). The amount in controversy exceeds $10,000.00 exclusive of interest and costs.

22. Plaintiff, SCM Corporation, hereinafter referred to as "SCM", is a corporation duly organized and existing under the laws of the State of New York and has its executive offices at 410 Park Avenue, New York, New York.

23. Defendant, Radio Corporation of America, hereinafter referred to as "RCA", is a corporation duly organized and existing under the laws of the State of Delaware, and has its executive offices within the Southern District of New York at 30 Rockefeller Plaza, New York, New York, and is duly qualified and registered to do business in the State of New York and is doing business in this District and elsewhere in the United States.

24. RCA has asserted that it is the owner of United States Letters Patent No. 3,052,539 and all rights thereunder, including the right to sue for infringement.

25. SCM is engaged in the manufacture, use and sale of electrostatic photocopy machines and supplies therefor including the use and sale of coated copy paper for use with electrostatic photocopy machines. These machines

and copy paper have been and are being extensively marketed by SCM throughout the United States and SCM intends to continue the manufacture, use and sale thereof.

26. RCA has stated to SCM that SCM's manufacture and sale of its electrostatic photocopying machines is an infringement of RCA's rights under Patent No. 3,052,539 and has demanded that SCM pay RCA a royalty to obtain a license under said patent to manufacture, use and sell said machines.

27. Defendant sought to and did induce plaintiff to accept a license under defendant's U. S. Patent No. 3,052,539. Said license became effective on March 1, 1963 and was terminated by plaintiff as of April 4, 1965. Defendant induced plaintiff to accept said license by threatening to sue defendant for infringement and by willfully, deliberately and fraudulently concealing from plaintiff material facts known to defendant and by willfully, deliberately and fraudulently making material representations of fact to plaintiff knowing that said representations were untrue. Because of said fraudulent concealment and said fraudulent representation by defendant, said license agreement was void and unenforceable from its inception. Plaintiff has been damaged by having been compelled and induced to pay royalties under said license agreement in an amount in excess of $465,000.

PLAINTIFF'S THIRD CAUSE OF ACTION

28. This is an action under §4 of the Clayton Act (15 U.S.C. §15) for violation of §2 of the Sherman Act (15 U.S.C. §2). For its third cause of action plaintiff alleges as follows:

29. Jurisdiction of this cause of action arises under 28 U.S.C. §§1313 and 1337. Venue is laid in this District under the provisions of 28 U.S.C. §1391(c). The amount in controversy exceeds $10,000., exclusive of interest and costs.

30. Plaintiff, SCM Corporation, hereinafter referred to as "SCM", is a corporation duly organized and existing under the laws of the State of New York and has its executive offices at 410 Park Avenue, New York, New York.

31. Defendant, Radio Corporation of America, hereinafter referred to as "RCA", is a corporation duly organized and existing under the laws of the State of Delaware, and has its executive offices within the Southern District of New York at 30 Rockefeller Plaza, New York, New York, and is duly qualified and registered to do business in the State of New York and is doing business in this District and elsewhere in the United States.

32. RCA has asserted that it is the owner of U. S. Patent No. 3,052,539 and the rights thereunder including the right to sue for infringement.

33. SCM is engaged in the manufacture, use and sale of electrostatic photocopying machines and supplies thereof including use and sale of coated copy paper for use in electrostatic photocopying machines. These machines and copy paper have been and are being extensively marketed by SCM throughout the United States and SCM intends to continue the manufacture, use and sale thereof.

34. Defendant has attempted to illegally monopolize and has illegally monopolized interstate commerce in the

electrostatic photocopy field in violation of §2 of the Sherman Act by continuously maintaining and asserting its U. S. Patent No. 3,052,539 in a licensing program under which all or virtually all users and sellers of zinc oxide coated electrostatic copy paper and all or virtually all manufacturers of such paper or machines for using such paper are required to pay either directly or indirectly large amounts of money as royalties. The grant of defendant's U. S. Patent No. 3,052,539 was procured by defendant as a result of willful, deliberate and fraudulent representations and concealment of material facts as aforesaid in Paragraph 14(f). Since said patent was issued said patent has been asserted in furtherance of said licensing program by defendant, while fraudulently concealing the same or similar material facts concealed from the U. S. Patent Office and the U. S. District Court, and while making fraudulent representations of the same or similar material facts as were made to the U. S. Patent Office and the District Court as alleged in Paragraph 14(f).

Plaintiff has been damaged by defendant's attempts to illegally monopolize and by defendant's illegal monopolization:

(a) by having been wrongfully induced to pay to defendant royalties in an amount in excess of $465,000.;

(b) by having been deprived of the use of the monies paid to defendant as royalties; and

(c) by having to pay the attorney's fees and other expenses to maintain this declaratory judgment action against defendant to establish the invalidity of defendant's patents and to establish plaintiff's right

to conduct its business free from defendant's charges of infringement against plaintiff and its customers.

WHEREFORE, plaintiff prays for a final judgment

(a) declaring that United States Patents Nos. 2,922,883, 3,052,539 and 3,052,540 and each and every claim thereof, are invalid, void and unenforceable;

(b) declaring that no claim of any of said patents has been infringed, is presently being infringed or will be infringed by any acts of plaintiff or acts contemplated by plaintiff; and

(c) decreeing that defendant, its officers, agents, servants, employees and attorneys and all persons in active contact or participation with them, be permanently enjoined from suing or threatening to sue, or making any charge against plaintiff, its customers, suppliers, officers, agents, servants or employees on account of alleged infringement of said patents;

(d) awarding plaintiff attorney fees under the provisions of 35 U.S.C. §285;

(e) awarding plaintiff restitution of all royalties paid by plaintiff to defendant under said license together with interest thereon from the date of payment;

(f) awarding plaintiff treble damages, costs and attorney fees under the provisions of 15 U.S.C. §15;

(g) awarding plaintiff its costs of this action; and

(h) awarding plaintiff such other relief as may be just and equitable.

Dated: May 8, 1967

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**Answer to Second Amended Complaint and Counterclaims**

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF NEW YORK

[SAME TITLE]

ANSWER TO SECOND AMENDED COMPLAINT AND COUNTERCLAIMS

Comes now defendant, Radio Corporation of America, hereinafter called RCA, and answers, by its attorney, the second amended complaint of SCM Corporation, hereinafter called SCM, numbered paragraphs 1 through 34 herein corresponding to the similarly numbered paragraphs in the second amended complaint, as follows:

*As to Plaintiff's First Cause of Action*

1-7. RCA states that each averment is correct, except that RCA is without knowledge or information sufficient to form a belief as to the truth of the averment in paragraph 7 that "SCM intends to continue the manufacture, use and sale thereof".

8, 9. RCA denies each averment, and RCA avers that:

RCA and SCM entered into a patent license agreement, dated March 1, 1963, and a supplemental license agreement, dated June 17, 1963, with respect to claims 1 to 13, 20 and 21 of RCA patent 3,052,539 in suit, but not to any other claims of that or any other patent, profert being made of the two agreements.

*Answer to Second Amended Complaint and Counterclaims*

10. RCA avers that a number of paper manufacturers have entered into license agreements with it, relating to RCA patents 3,052,539 and 3,052,540; makes profert of such agreements; states that it is without knowledge or information sufficient to form a belief as to the truth of the averments in the last five sentences of paragraph 10; denies each remaining averment in paragraph 10 of the complaint.

11. RCA denies each averment, except as stated hereinabove in paragraphs 9 and 10, and states that the SCM license agreement terminated on April 4, 1965, and that SCM has advised and informed RCA that SCM does not believe that the RCA patents 2,922,883, 3,052,539 and 3,052,540 are valid and infringed by SCM and that SCM "intends to continue the manufacture and sale of electrostatic photocopy machines as well as the sale of coated paper for use therewith acquired from paper manufacturers not licensed by RCA".

12. RCA states that each averment is correct.

13, 14, 15. RCA denies each averment therein.

16. RCA notes that SCM states it will give notice as it is required to do by the Patent Statutes.

17, 18. RCA denies each averment.

19. RCA states that there is "an actual controversy", between SCM and RCA.

*Answer to Second Amended Complaint and Counterclaims*

*As To Plaintiff's Second Cause of Action*

20. RCA admits that plaintiff avers that its second cause of action is for restitution of royalties paid under a patent license agreement; except as so admitted, RCA denies each averment of paragraph 20;

21. RCA denies that jurisdiction over this cause of action arises under 28 U.S.C. §1332; avers that this Court does not have jurisdiction over plaintiff's second cause of action; RCA admits the remaining averments;

22. RCA admits the averments;

23. RCA admits the averments;

24. RCA admits the averments;

25. RCA states that it is without knowledge or information sufficient to form a belief as to the truth of the averment that "SCM intends to continue the manufacture, use and sale thereof"; RCA admits the remaining averments;

26. RCA avers that RCA has stated to SCM that SCM's activities in the manufacture, use and sale of its Electrofax machines constitutes infringement of, inducing infringement of, and contributing to infringement of, claims 1 through 13, claim 20 and claim 21 of RCA patent 3,052,539, and that RCA has demanded a royalty from SCM because of such manufacture, use and sale; except as so expressly averred, RCA denies each averment;

27. RCA admits that RCA and SCM entered into a patent license agreement, dated March 1, 1963, and a sup-

plemental license agreement, dated June 7, 1963, with respect to claims 1 through 13, claim 20 and claim 21 of RCA patent 3,052,539; RCA admits that this license agreement terminated on April 4, 1965, except as so admitted, RCA denies each averment;

*As To Plaintiff's Third Cause of Action*

28. RCA admits that plaintiff avers that its third cause of action arises under §4 of the Clayton Act (15 U.S.C. §15) for violation of §2 of the Sherman Act (15 U.S.C. §2); except as so admitted, RCA denies each averment of paragraph 28;

29. RCA points out that plaintiff's reference to 28 U.S.C. §1313 is probably in error, 28 U.S.C. §1331 being intended; as so construed, RCA admits the averments;

30. RCA admits the averments;

31. RCA admits the averments;

32. RCA admits the averments;

33. RCA states that it is without knowledge or information sufficient to form a belief as to the truth of the averment that "SCM intends to continue the manufacture, use and sale thereof"; RCA admits the remaining averments;

34. RCA denies each averment.

*As And For A First Affirmative Defense To The Second And Third Causes Of Action*

35. The second and third causes of action fail to state claims against defendant upon which relief can be granted.

*Answer to Second Amended Complaint and Counterclaims*

*As And For A Second Affirmative Defense To The Second And Third Causes Of Action*

36. Plaintiff is guilty of unclean hands for the reasons set forth hereinafter in RCA's Second Counterclaim, and should be barred from maintaining this action.

FIRST COUNTERCLAIM

RCA, by its attorney, avers:

37. This counterclaim arises out of the transaction or occurrence that is the subject matter of SCM's complaint and amended complaints, and does not require for its adjudication the presence of third parties of whom the Court cannot acquire jurisdiction, and more specifically, this counterclaim arises out of the acts of SCM inducing infringement of, infringing directly and contributorily, and threatening to induce infringement of and to infringe directly and contributorily, each of RCA patents 2,922,833, 3,052,539 and 3,052,540, profert of which is hereby made, and the jurisdiction of this Court is based upon the Patent Laws of the United States and 28 U.S.C. 1338(a).

38. RCA patent 2,922,883 was duly and legally issued to RCA, for an invention in Electrostatic Charging Means and Method; RCA patents 3,052,539 and 3,052,540 were duly and legally issued to RCA, for inventions in Electrostatic Printing and Dye Sensitization of Electrophotographic Materials; and RCA is now and always has been the sole owner of the applications for each of the three patents, and of the three patents, and all rights thereunder, including the rights to sue and recover for infringements of each patent.

*Answer to Second Amended Complaint and Counterclaims*

39. SCM had knowledge of each of the three patents prior to the filing of the present action; has induced infringement of, has infringed directly and contributorily, and has threatened to induce infringement of and to infringe directly and contributorily, each of said patents, in this District and elsewhere within the United States, and SCM will continue to do so unless enjoined by this Court; RCA has suffered irreparable damage, because of SCM's infringements, and threatened infringements; and RCA will continue so to suffer unless SCM is restrained.

SECOND COUNTERCLAIM

RCA, by its attorney, avers:

*Nature of Claim and Jurisdiction of the Court*

40. This counterclaim is brought under Sections 4, 12 and 16 of the Clayton Act (15 U.S.C. §§15, 22 and 26) in order to declare, to prevent and restrain, and to recover three-fold the damages resulting from, the violation by plaintiff, as hereinafter alleged, of Section 2 of the Sherman Act (15 U.S.C. §2), and Section 3 of the Clayton Act (15 U.S.C. §14).

*The Parties*

41. Plaintiff, SCM, is a corporation duly organized and existing under the laws of the State of New York and has its executive offices at 410 Park Avenue, New York, New York, and is doing business in the Southern District of New York and elsewhere in the United States.

42. Defendant, RCA, is a corporation organized and existing under the laws of the State of Delaware and has its executive offices at 30 Rockefeller Plaza, New York, New York.

*Answer to Second Amended Complaint and Counterclaims*

*RCA's Interest in Electrofax Photocopying*

43. RCA is the originator and developer of an electrostatic printing process known as the Electrofax process. In the Electrofax process, as used today in office copying, a sheet of copy paper coated with a special composition comprising photoconductive zinc oxide is employed. The coated sheet is electrostatically charged by a negative corona and thereafter exposed to an image of original copy. The latent electrostatic image thus formed on the coated sheet is made visible by developing it with a positively charged toner. In the Electrofax process, image development can be accomplished with a dispersion of toner in liquid or with a dry mixture of toner and carrier particles, with distinct advantages and disadvantages dependent upon the process used. Electrofax machines utilizing a liquid developer dispersion are hereinafter referred to as "liquid copiers". Electrofax machines utilizing a dry developer mixture are hereinafter referred to as "dry copiers". The paper used in Electrofax machines, which differs in some characteristics depending upon whether it is to be used in liquid copiers or dry copiers, is hereinafter referred to as "Electrofax paper".

44. As a result of its extensive research and development with respect to the Electrofax process, RCA became and is now the owner of various United States letters patent relating to the Electrofax process, and to machines, coated papers and other supplies useful in carrying out this process, including United States Patent No. 2,922,883, issued January 26, 1960; United States Patent No. 3,052,539, issued September 4, 1962; and United States Patent No. 3,052,540, issued September 4, 1962. The aforesaid patents are referred to hereinafter as "Electrofax patents".

*Answer to Second Amended Complaint and Counterclaims*

45. By reason of its ownership of the various aforesaid patent rights, RCA is the sole lawful monopolist of the Electrofax process. As such, RCA was lawfully entitled to manufacture and sell Electrofax machines and Electrofax paper to the exclusion of all other persons, firms and corporations from said manufacture and sale. RCA chose to offer freely and publicly and to grant nonexclusive licenses under its various Electrofax patent rights to all persons, firms and corporations desiring to make, have made, sell or use Electrofax machines and Electrofax paper and supplies. In so doing, RCA has sought to establish a free and open competitive market for Electrofax machines and Electrofax paper, thus obtaining the benefits to be achieved from the stimulus of free competition. RCA itself has never engaged in the commercial manufacture or sale of Electrofax machines or in the commercial manufacture or sale of Electrofax paper or supplies.

46. In return for the grant of the aforesaid licenses, RCA receives royalties measured by the value of the licensed use of its Electrofax patents, which is presently calculated on a percentage of selling price. To date, RCA has granted licenses under its Electrofax patents to more than 150 persons, firms and corporations. RCA now has in effect 63 licenses under its Electrofax patents. Included among RCA's Electrofax licensees are manufacturers and sellers of Electrofax machines and manufacturers and sellers of Electrofax paper and supplies.

*Commerce Involved*

47. The trade and commerce involved in this action with respect to Electrofax machines consists of:

(a) the sale, leasing and servicing of Electrofax machines in the interstate and foreign commerce of the United States;

(b) the sale, leasing and servicing of Electrofax liquid copiers in the interstate and foreign commerce of the United States.

48. The trade and commerce involved in this action with respect to Electrofax paper consists of:

(a) the sale of Electrofax paper in the interstate and foreign commerce of the United States;

(b) the sale of Electrofax paper designed for use in Electrofax liquid copiers in the interstate and foreign commerce of the United States;

(c) the sale of Electrofax paper designed for use in Electrofax machines sold and leased by plaintiff in the interstate and foreign commerce of the United States.

49. Each of the aforesaid lines of trade and commerce constitutes a separate and distinct line of trade and commerce.

50. The aforesaid lines of trade and commerce constitute a substantial part of the interstate and foreign commerce of the United States in that, upon information and belief, during the year 1966:

(a) revenues of approximately $65,000,000 were derived from the sale and leasing of Electrofax machines in the interstate and foreign commerce of the United States;

(b) revenues of approximately $46,000,000 were derived from the sale and leasing of Electrofax liquid

copiers in the interstate and foreign commerce of the United States;

(c) revenues of approximately $87,000,000 were derived from the sale of Electrofax paper in the interstate and foreign commerce of the United States;

(d) revenues of approximately $55,000,000 were derived from the sale of Electrofax paper designed for use in Electrofax liquid copiers in the interstate and foreign commerce of the United States; and

(e) revenues of approximately $37,500,000 were derived from the sale of Electrofax paper designed for use in Electrofax machines sold and leased by plaintiff in the interstate and foreign commerce of the United States.

51. Plaintiff is engaged in the aforesaid lines of trade and commerce, as is more fully set forth below.

*The Offenses Charged*

52. Beginning in or about the year 1959, and continuing up to and including the date of filing of this counterclaim, plaintiff and other persons acting for and on behalf of plaintiff have attempted unlawfully to monopolize and have unlawfully monopolized a substantial part of the interstate and foreign commerce of the United States as alleged in paragraphs 47 and 48 in violation of Section 2 of the Sherman Act.

53. Pursuant to the aforesaid attempt to monopolize and monopolization, during the aforesaid period of time, moreover, plaintiff and other persons acting for and on behalf of plaintiff have leased and sold Electrofax machines on the unlawful condition, agreement and under-

standing that the purchaser or lessee shall not buy or use the goods of a competitor or competitors of the plaintiff, the effect of which may be to tend to create a monopoly in violation of Section 3 of the Clayton Act.

*With Respect to Electrofax Machines and Electrofax Liquid Copiers*

54. Pursuant to the offenses set forth in paragraph 52, plaintiff has sought to dominate the markets alleged in paragraphs 47 and 48, without incurring the usual failures, delays and expenses to be expected upon entry into a new line of endeavor:

(a) On information and belief, prior to the year 1959, plaintiff (which was then known as Smith-Corona Marchant, Inc.) had no background or experience in the field of photocopying. Plaintiff deliberately and knowingly hired away numerous technical and sales personnel employed by prospective competitors engaged in the manufacture, sale and lease of, or research and development in the field of, photocopying machines and paper, in many instances inducing and causing said employees to breach their express or implied agreements with their employers. Included among said prospective competitors were present and former licensees of RCA's Electrofax process, and included among said employees were employees who had directly and indirectly received information regarding, and were informed of, RCA's development and technology in the field of Electrofax copying.

(b) On information and belief, in or about June 1961, plaintiff acquired the assets of St. Louis Microstatics Co., a company which had been licensed by RCA, and which had practical knowledge of and which had done research in the field of Electrofax copying.

55. As a result of and pursuant to the offenses set forth in paragraph 52, plaintiff:

(a) succeeded, on information and belief, by 1963, in obtaining 40% of the sales and other placement of all Electrofax machines and 100% of the sales and other placement of all Electrofax liquid copiers, thereby acquiring monopoly power in these lines of commerce;

(b) utilized the resulting monopoly power to control the sales and determine the prices of Electrofax paper as hereinafter alleged; and

(c) employed the resulting monopoly profits to develop and promote new models of Electrofax machines.

56. On information and belief, plaintiff is now the principal and dominant manufacturer and seller in the United States of Electrofax machines and Electrofax liquid copiers. Plaintiff's sales and rental income from such machines and copiers during the year 1966 amounted to approximately $16,000,000. Of the total number of Electrofax liquid copiers presently in use, approximately 58% are copiers manufactured by plaintiff.

*With Respect to Electrofax Paper, Electrofax Paper Designed for Use in Electrofax Liquid Copiers, and Electrofax Paper Designed for Use in Electrofax Machines Sold or Leased by Plaintiff*

57. On information and belief, plaintiff has never commercially manufactured Electrofax paper, but has at all times purchased such paper from others for resale or other distribution to users of Electrofax machines. The paper so purchased by plaintiff has been purchased from manufacturers licensed under RCA patents.

58. Pursuant to the offenses set forth in paragraphs 52 and 53, plaintiff has, upon information and belief:

(a) required lessees of its Electrofax machines to obtain all their requirements for Electrofax paper from the plaintiff by offering leases which provided that plaintiff would furnish the lessee with all needed supplies, including Electrofax paper;

(b) refused to sell its Model SCM 55, plaintiff's newest Electrofax machine, and compelled customers who wished to acquire said machines to lease said machines from plaintiff on the terms and conditions set forth above, thereby entirely precluding plaintiff's competitors from selling Electrofax paper to users of its Model SCM 55;

(c) inhibited, discouraged and restrained purchasers of its other Electrofax machines from purchasing Electrofax paper for use in said machines from competitors of plaintiff by offering service contracts for the servicing of its machines, which provided that plaintiff had the right to suspend the said contract if the owner used Electrofax paper sold by plaintiff's competitors;

(d) inhibited, discouraged and restrained purchasers of its other Electrofax machines from purchasing Electrofax paper for use in said machines from competitors of plaintiff by providing in its service contracts for the servicing of its machines and by providing in its performance guaranties that the said service contracts or the said guaranty would not apply in the event that repairs were made necessary by the use of Electrofax paper acquired from any firm other than plaintiff, while giving the purchaser the benefit of the said service contract or the said guaranty where repairs were made necessary through the use of plaintiff's Electrofax paper;

(e) induced and required its supplier or suppliers of Electrofax paper to sell such paper to plaintiff at unreasonably low and discriminatory prices;

(f) inhibited, discouraged and restrained purchasers of its other Electrofax machines from purchasing Electrofax paper for use in said machines from competitors of plaintiff by refusing to sell parts for said machines to its competitors for use in servicing and repairing said machines; and

(g) further inhibited, discouraged and restrained the entry and growth of competition in the sale of Electrofax paper for use in Electrofax machines manufactured and sold by plaintiff by requiring and exacting restrictive covenants in its employment agreements, which covenants are designed to hamper and impede its employees from engaging in competition with plaintiff, and by instituting and prosecuting legal actions against former employees, and those associated with former employees, who have engaged or threatened to engage in competition with plaintiff.

59. As a result of and pursuant to the offenses set forth in paragraphs 52 and 53, plaintiff is now, on information and belief, the principal and dominant seller in the United States of Electrofax paper, of Electrofax paper designed for use in Electrofax liquid copiers, and of Electrofax paper designed for use in Electrofax machines sold and leased by plaintiff. Plaintiff sells approximately 39% of all Electrofax paper; 61% of all Electrofax paper designed for use in Electrofax liquid copiers; and more than 90% of all Electrofax paper designed for use in Electrofax machines sold and leased by plaintiff. Plaintiff's sales of Electrofax paper during the year 1966 amounted to approximately $34,000,000.

60. As a further result of the offenses set forth in paragraphs 52 through 55 and 58, plaintiff is able to and does receive monopoly profits in the sale of Electrofax paper. On information and belief, plaintiff purchases such paper, packaged and ready for resale, at a price of less than one cent per sheet and resells such paper to customers at a price of approximately 3.2 cents per sheet, a mark-up of more than 300%.

*With Respect to RCA*

61. As alleged above, plaintiff, making use of RCA's research and development, has unlawfully acquired a dominant position in the markets alleged in paragraphs 47 and 48, and has wilfully abused that dominant position to eliminate RCA's lawful position in the market derived from its patents and thereby deprive the market of the free and open competitive structure sought to be established by RCA, the only lawful monopolist in the Electrofax field.

62. As is alleged below, plaintiff has, with respect to RCA, attempted to and has acted as a monopolist, thereby using its dominant position in the markets alleged in paragraphs 47 and 48, to confront RCA with a market dominated by only one possible licensee of its patents.

63. On or about March 1, 1963, plaintiff entered into a license agreement with RCA pursuant to which RCA gave plaintiff a non-exclusive license under claims 1 through 13 and claims 20 and 21 of Patent No. 3,052,539 to make, have made, lease, use and sell and otherwise dispose of Electrofax machines at a royalty of 2% of sales price, as defined in the said agreement. On or about June 17, 1963, the aforesaid license of March 1, 1963 was amended by letter

agreement between plaintiff and RCA. Plaintiff was offered but declined to accept a non-exclusive license under Patent No. 2,922,883.

64. During the year 1964, RCA entered into discussions with its Electrofax licensees, including plaintiff, looking towards a revision of the royalty base provisions contained in its then existing Electrofax license agreements. The result of such discussions was that all commercially active licensees, except plaintiff, agreed to and were given by RCA, with respect to Electrofax machines, royalty base reductions of 10% in the case of wholesale selling prices and 35% in the case of retail selling prices, said percentage amounts to be deducted from the licensee's actual selling price before computing the percentage royalty to be paid.

65. Pursuant to the offenses set forth in paragraphs 52 through 55, 58 and 62, plaintiff has, with respect to Electrofax machines and Electrofax liquid copiers:

(a) refused to accept the reductions agreed to by all of RCA's other commercially active licensees (who were also plaintiff's competitors) and demanded that RCA give it a discriminatory reduction in royalty base of at least 50% off selling price, with the further proviso that plaintiff not pay RCA in excess of $100,000 in royalties in any year, regardless of the number of or dollar volume of licensed products sold by plaintiff; and

(b) sought to be released from the payment of any royalties, as is hereinafter alleged.

66. Pursuant to the offenses set forth in paragraphs 52 through 55, 58 and 62, plaintiff has, with respect to Elec-

trofax paper, Electrofax paper designed for use in Electrofax liquid copiers, and Electrofax paper designed for use in Electrofax machines sold or leased by plaintiff:

(a) sought to place the entire royalty burden for rights under RCA's Patent No. 3,052,539 upon Electrofax paper manufacturers to the exclusion of Electrofax machine manufacturers such as plaintiff by insisting that RCA not license Electrofax machine manufacturers and Electrofax paper manufacturers under separate sets of claims of said patent, and that only the Electrofax paper manufacturers should be required to enter into license agreements under the said patent; and

(b) sought to compel RCA to require licensees to take a compulsory package license by insisting that RCA not license Electrofax machine manufacturers and Electrofax paper manufacturers under separate sets of claims of Patent No. 3,052,539, but that it grant licenses only to paper manufacturers under all of the claims of the said patent.

67. When RCA refused to accede to plaintiff's various demands set forth above, plaintiff further informed RCA that unless RCA acceded to these demands it would terminate its existing license agreement with RCA. Upon RCA's continued refusal to accede to plaintiff's demands, as set forth above, plaintiff notified RCA by letter dated March 5, 1965 that it was terminating its existing license with RCA and instituting this action.

68. On or about March 5, 1965, plaintiff instituted this action, thereby attempting to invoke and obtain the aid of this Court to implement and assist it in the furtherance of the unlawful offenses alleged herein.

*Answer to Second Amended Complaint and Counterclaims*

*Effects of Offenses*

69. As a result of the offenses charged above:

(a) competition among manufacturers and others in the marketing, by sale, lease and other means, of Electrofax machines has been restrained and monopolized;

(b) competition among manufacturers and others in the marketing, by sale, lease and other means, of Electrofax liquid copiers has been restrained and monopolized;

(c) competition among manufacturers, wholesalers, retailers and others in the marketing by sale and other means of Electrofax paper has been restrained and monopolized;

(d) competition among manufacturers, wholesalers, retailers and others in the marketing by sale and other means of Electrofax paper designed for use in Electrofax liquid copiers has been restrained and monopolized; and

(e) competition among manufacturers, wholesalers, retailers and others in the marketing by sale and other means of Electrofax paper designed for use in Electrofax machines sold and leased by plaintiff has been restrained and monopolized.

70. As a result of the offenses alleged above, RCA has been immediately injured as lawful owner of its United States letters patent alleged above, in that RCA has been wilfully and maliciously deprived of royalties lawfully due and owing from plaintiff under United States Letters Patent No. 3,052,539, and has been put to the burden and expense of defending this law suit.

71. As a result of the foregoing, RCA has been injured in its business and property in an amount estimated to be in excess of $1,000,000, which amount may become substantially greater as a result of plaintiff's continuing the violations heretofore alleged.

72. In addition to the foregoing, RCA has been threatened with loss and damage in that, on information and belief:

(a) RCA has been prevented and foreclosed from entering into license agreements with persons, firms and corporations which would, but for plaintiff's acts and offenses alleged herein, have entered the business of manufacturing and selling Electrofax machines, including Electrofax liquid copiers, and which would have taken licenses from RCA under its Electrofax patents;

(b) RCA has been prevented and foreclosed from enjoying the full benefits of its Electrofax patents in that, by reason of plaintiff's acts and offenses alleged herein, persons, firms and corporations licensed by RCA to manufacture and sell Electrofax machines, including Electrofax liquid copiers, have been deterred from, have refrained from, have been unable to, and have not developed, promoted and commercially exploited RCA's patented inventions as they otherwise would have, but for said acts and offenses;

(c) RCA has been prevented and foreclosed from entering into license agreements with persons, firms and corporations which would, but for plaintiff's acts and offenses alleged herein, have entered the business of manufacturing and selling Electrofax paper, in-

cluding Electrofax paper designed for use in Electrofax liquid copiers, and Electrofax paper designed for use in Electrofax machines sold and leased by plaintiff, and which would have taken licenses from RCA under its Electrofax patents;

(d) RCA has been prevented and foreclosed from enjoying the full benefits of its Electrofax patents in that, by reason of plaintiff's acts and offenses alleged herein, persons, firms and corporations licensed by RCA to manufacture and sell Electrofax paper, including Electrofax paper designed for use in Electrofax liquid copiers and Electrofax paper designed for use in Electrofax machines sold and leased by plaintiff, have been deterred from, have refrained from, have been unable to, and have not developed, promoted and commercially exploited RCA's patented inventions as they otherwise would have, but for said acts and offenses; and

(e) RCA has been prevented and foreclosed from enjoying the full benefits of its Electrofax patents in that, by reason of plaintiff's acts and offenses alleged herein, persons, firms and corporations owning or possessing Electrofax machines have been deterred from, have refrained from, and have not purchased, or otherwise acquired, and used Electrofax paper, including Electrofax paper designed for use in Electrofax liquid copiers and Electrofax paper designed for use in Electrofax machines sold or leased by plaintiff as they otherwise would have, but for said acts and offenses.

73. Unless the relief RCA requests is granted, it will suffer immediate, further and irreparable injury.

74. RCA has no adequate remedy at law.

PRAYER FOR RELIEF

WHEREFORE, defendant RCA prays that this Court order, adjudge and decree:

1. That the second amended complaint be dismissed with prejudice.

2. That RCA have judgment on its First Counterclaim.

3. That SCM, its officers, agents, servants, employees, attorneys and all persons in active concert or participation with them be enjoined from inducing infringement of, and from infringing, directly or contributorially, RCA's patents 2,922,883, 3,052,539 and 3,052,540.

4. That SCM account to RCA because of its infringements and threatened infringements of RCA patents 2,922,883, 3,052,539 and 3,052,540.

5. That RCA have judgment on its Second Counterclaim.

6. That plaintiff has violated Section 2 of the Sherman Act and Section 3 of the Clayton Act.

7. That plaintiff pay to RCA three-fold the damages sustained by RCA.

8. That plaintiff, its officers, agents, servants, employees, attorneys and all persons in active concert or participation with them be enjoined from:

(a) requiring lessees of its Electrofax machines to obtain their supplies of paper from plaintiff;

(b) refusing to sell any of its Electrofax machines at reasonable prices to customers who desire to purchase such machines;

(c) entering into service contracts with owners of Electrofax machines manufactured by plaintiff or extending guaranties to such purchasers which are conditioned in any way upon the purchaser's using paper sold by plaintiff or which give benefits to the purchaser as a result of his using paper purchased from plaintiff;

(d) soliciting or receiving any unreasonably low or discriminatory prices in the purchase of Electrofax paper for use in Electrofax machines;

(e) soliciting unreasonably low or discriminatory royalties from patent licensors;

(f) seeking to compel patent licensors to engage in compulsory package licensing; and

(g) engaging in other unlawful offenses alleged herein.

9. That RCA recover its costs and expenses and reasonable attorneys' fees.

10. That RCA have such other and further relief as to this Court may seem just and proper.

June 13, 1967

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*Of Counsel:*

LAWRENCE J. MCKAY

**Transcript of Record of Proceedings of May 8, 1967**

65 Civ. 686

**[SAME TITLE]**

HON. EDWARD C. McLEAN,
*District Judge.*

New York, May 8, 1967

(pp. 18-19)

The Court: The only basis or standing for suing would be as the owner of a patent.

Mr. McKay [Attorney for RCA]: That is correct.

The Court: If that patent is held invalid, that is the end of your lawsuit.

Mr. McKay: That would be my understanding.

* * *

## Stipulation of Facts

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

No. 31967

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SCM CORPORATION,

Plaintiff-Appellee,

*—against—*

RADIO CORPORATION OF AMERICA,

Defendant-Appellant.

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ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK

For the purposes of defendant's appeal from the judgment entered on October 9, 1967, of the United States District Court for the Southern District of New York, dismissing defendant's second counterclaim, it is hereby stipulated by and between the attorneys for the parties as follows:

(1) During the years 1954 through 1962, when RCA was granting licenses that permitted the licensee to operate under all of its Electrofax patents and applications, including the application for patent No. 3,052,539, RCA had as many as 133 licensees. In any year during the period 1954 through 1962, not more than four of such licensees operated under their licenses and paid any royalties to RCA.

(2) During 1962, the year in which patent No. 3,052,539 was issued, RCA had 20 licensees who had licenses under

RCA Electrofax patents and applications, including patent No. 3,052,539. Of these 20 licensees, four operated under their licenses and paid royalties and 16 did not operate under their licenses and incurred no royalty obligation.

(3) In 1965, the year in which this action was begun, RCA had 40 non-exclusive licensees under its Electrofax patents. Of these nearly all had licenses under patent No. 3,052,539. Up to December 15, 1965, 26 of the licensees operated under their licenses and paid royalties, and 14 licensees did not operate under their licenses and incurred no royalty obligation.

(4) SCM has not requested and RCA has not provided information as to the total number of licensees or the number of royalty paying licensees for any time subsequent to December 15, 1965.

May 8, 1968

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May 8, 1968

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SO ORDERED:

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U. S. C. J.